RECD S.E.C.
JUL 14 1992
147

92 18 3677

Washington, D.C. 20549

FORM 10-Q

[X]QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended May 30, 1992

or

[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

HALLWOOD HOLDINGS INCORPORATED

(Exact name of registrant as specified in its charter)

Commission File Number 33-39954

DELAWARE	25-1655321
(State of Incorporation)	(I.R.S. Employer Identification No.)

630 ALPHA DRIVE, PITTSBURGH, PA	15238
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 412-782-4430

RECD S.E.C.
JUL 14 1992
142

Securities registered pursuant to Section 12(b) of the Act:

NONE
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:

PROCESSED BY
JUL 17 1992

Common Stock, Par value $0.01
(Title of Class)

Warrants to Purchase Common Stock, Par value $(
(Title of Class)

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes X No __

As of June 30, 1992, the number of shares of the Registrant's Common Stock, $0.01 par value per share, issued and outstanding was 2,582,685 of which approximately 107,959 shares were reserved for distribution to holders of disputed claims pursuant to the Registrant's 1989 Plan of Reorganization, when such claims are ultimately resolved. Included in the issued and outstanding shares are 3,635 shares of common stock which were held for distribution in exchange for 161,153 shares of old common stock (stock outstanding prior to the consummation of the Registrant's 1989 Plan of Reorganization) which had not yet been exchanged by their holders for new Common Stock pursuant to such Plan.

DOCUMENTS INCORPORATED BY REFERENCE

None

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Hallwood Holdings Incorporated and Subsidiaries:

Consolidated balance sheets as of May 30, 1992 (unaudited) and February 29, 1992 4

Consolidated statements of operations for the thirteen weeks ended May 30, 1992 and June 1, 1991 (unaudited) 5

Consolidated statement of shareholders' equity for the thirteen weeks ended May 30, 1992 (unaudited) 6

Consolidated statements of cash flows for the thirteen weeks ended May 30, 1992 and June 1, 1991 (unaudited) 7

Notes to consolidated financial statements (unaudited) 8

HALLWOOD HOLDINGS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)

ASSETS	May 30, 1992 (Unaudited)	February 29, 1992
Current assets:		
Cash and cash equivalents	$ 1,654	$ 2,208
Trade accounts receivable, less allowance of $309	4,965	4,447
Accounts receivable, other	98	98
Inventories	6,970	5,612
Other	53	119
Total current assets	13,740	12,484
Property and equipment, at cost	1,691	1,650
Less accumulated depreciation and amortization	(368)	(331)
	1,323	1,319
Other assets	730	705
	$ 15,793	$ 14,508

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,070	$ 5,894
Accrued compensation	347	511
Current maturities of long-term obligations	65	64
Net obligation of discontinued business segment-current portion	165	164
Other	322	353
Total current liabilities	7,969	6,986
Other long-term obligations:		
Net obligation of discontinued business segment, long-term portion	1,904	1,904
Long-term debt and capital lease obligations	183	200
Minority interest in Hallwood Industries Incorporated	593	556
	2,680	2,660
Stockholders' equity:		
Preferred stock, par value $0.01 per share; authorized 5,000,000 shares, none issued	-	-
Common stock, par value $0.01 per share; authorized 5,000,000 shares; issued 2,582,685 and 2,582,597 shares	26	26
Additional paid-in capital	38,655	38,559
Deficit (Reorganized on August 26, 1989)	(33,536)	(33,722)
Treasury stock, at cost, 207 shares	(1)	(1)
Total stockholders' equity	5,144	4,862
	$ 15,793	$ 14,508

The accompanying notes are an integral part of these consolidated financial statements.

HALLWOOD HOLDINGS INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Thirteen Weeks Ended	
	May 30, 1992	June 1, 1991
Sales	$ 9,111	$ 9,070
Other income	1	3
	9,112	9,073
Cost of goods sold, including occupancy and buying expenses	7,433	7,251
Operating, selling and administrative expenses	1,331	1,491
Interest (income) expense	(8)	(24)
Minority interest in income of subsidiary	24	–
	8,780	8,718
Income before income taxes	332	355
Income taxes	146	142
Net income	$ 186	$ 213
Per share amounts:		
Net income	$ 0.07	$ 0.08
Weighted average number of shares outstanding used in computing per share amounts	2,785,270	2,789,610

The accompanying notes are an integral part of these consolidated financial statements.

HALLWOOD HOLDINGS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

THIRTEEN WEEKS ENDED MAY 30, 1992

(Unaudited)

(Dollars in thousands, except share data)

	Common Stock		Additional Paid-in	Retained Earnings	Treasury Stock	
	shares	par value	Capital	(Deficit)	shares	cost
Balances, February 29, 1992	2,582,597	$26	$38,559	($33,722)	207	($1)
Net income for the period				186		
Addition to paid-in capital resulting from utilization of tax loss carryforward			108			
Warrants exercised	88	-				
Minority interest in Hallwood Industries Incorporated			(12)			
Balances, May 30, 1992	2,582,685	$26	$38,655	($33,536)	207	($1)

The accompanying notes are an integral part of these consolidated financial statements

HALLWOOD HOLDINGS INCORPORATED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollar amounts in thousands)

(Unaudited)

	Thirteen Weeks Ended	
	May 30, 1992	June 1, 1991
Cash flows from operating activities:		
Income from continuing operations	$ 186	$ 213
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:		
Depreciation	37	38
Addition to paid-in capital resulting from utilization of tax loss carryforwards	108	85
Minority interest in post-merger income	24	–
Other changes in operating assets and liabilities:		
Accounts receivable	(518)	(905)
Inventories	(1,358)	291
Accounts payable	1,177	861
Other	(129)	(72)
Net cash (used in) provided by operating activities of:		
Continuing operations	(473)	511
Discontinued operations	1	(135)
Net cash (used in) provided by operating activities	(472)	376
Cash flows from investing activities:		
Additions to property and equipment	(41)	(12)
Deferred financing costs	(25)	–
Other	–	28
Net cash (used in) provided by investing activities	(66)	16
Cash flows from financing activities:		
Principal payments on long-term debt	(16)	(19)
Net cash used in financing activities	(16)	(19)
Net (decrease) increase in cash and cash equivalents	(554)	373
Cash and cash equivalents at beginning of period	2,208	2,021
Cash and cash equivalents at end of period	$ 1,654	$ 2,394

The accompanying notes are an integral part of these consolidated financial statements.

HALLWOOD HOLDINGS INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Significant Accounting Policies

Ha.lwood Holdings Incorporated ("Holdings") was formed as a result of a merger on July 5, 1991 with Hallwood Industries Incorporated ("Industries"). The merger resulted in a restructuring of Industries such that it became a majority owned subsidiary of Holdings. In accordance with the Merger Agreement, Holdings holds 10% of the outstanding common stock of Industries and now holds sufficient shares of Industries' Series A Preferred Stock such that the aggregate fair market value of Industries' common stock and Series A Preferred Stock owned by Holdings is approximately 90% of the aggregate fair market value of the issued and outstanding common and voting preferred stock of Industries. The Series A Preferred Stock of Industries issued to Holdings had not been completed as of May 30, 1992. However, because of the approval of the Merger Agreement by the stockholders of Industries on July 5, 1991, Holdings effectively controls 90% of the voting stock of Industries. The accompanying financial statements reflect this control and include the accounts of Industries.

This transaction has been accounted for as a corporate reorganization of entities under common control. This method of accounting is similar to a pooling of interests in which the assets, liabilities and stockholders' equity of both companies are combined and are reflected in the consolidated financial statements based upon their historical cost. The consolidated financial statements reflect the existence of the minority interest at the date of the Merger as a reduction to additional paid-in capital. The minority interest (representing 10% of Industries post-merger equity) relates to the 90% of Industries' common stock held by stockholders other than Holdings.

The consolidated financial statements consist principally of the activities of Industries. At May 30, 1992, there had not been separate activities of Holdings other than the incurrence of various professional fees and associated administrative costs related to a proposed financing transaction. As a result, separate presentation herein of Industries' financial statements on a stand-alone basis is not considered appropriate at this time.

As discussed above, the consolidated financial statements include the accounts of Industries (formerly Heck's, Inc.) and its subsidiaries. All subsidiaries of Industries are wholly owned except Maloney Enterprises, Inc. ("Maloney") which has redeemable preferred stock outstanding which is to be settled within the context of the Maloney bankruptcy proceedings. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. All adjustments made are of a normal recurring nature.

While the Company believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these unaudited consolidated financial statements be read in conjunction with the consolidated financial statements for the fiscal year ended February 29, 1992, as filed in the Annual Report on Form 10-K.

2. Corporate Reorganization

On July 5, 1991, the stockholders of Industries approved the merger of Industries with a newly-formed Delaware corporation which was a subsidiary of Hallwood Holdings Incorporated. In accordance with the Merger Agreement, the par value of Industries' common stock and preferred stock was reduced from $1.00 per share to $0.01 per share and the authorized number of shares of common stock was reduced from 25,000,000 to 5,000,000. Also, nine-tenths (9/10) of the shares of Industries' common stock was canceled in exchange for the issuance of a number of shares of Holdings' $0.01 par value common stock, equal to ten-ninths (10/9) times the number of shares of Industries' common stock canceled, and one-tenth (1/10) of Industries' common stock was retained by each stockholder. In order to avoid the inconvenience of having fractional shares outstanding, Industries issued a stock dividend of that number of shares of its common stock equal to nine times the number of shares owned by each stockholder upon the effectiveness of the Merger. Further, Industries issued to Holdings that number of shares of its common stock which constituted 10% of the total outstanding common stock of Industries. In June 1992, Industries' Board of Directors approved the issuance to Holdings of 2,295,642 shares of Industries' Series A Preferred Stock such that the aggregate fair market value of Industries' common stock and Series A Preferred Stock now owned by Holdings totals approximately 90% of the aggregate fair market value of all the issued and outstanding common and voting preferred stock of Industries.

Under the Merger Agreement, Industries is required to issue to Holdings, for a period of five years following the Merger, such additional number of shares of Series A Preferred Stock and/or common stock as shall be necessary, in accordance with periodic determinations to be made by an investment banking firm or other financial advisor designated by the Board of Directors, to make the aggregate fair market value of Industries' common stock owned by Holdings, together with the Series A Preferred Stock owned by Holdings, equal to approximately 90% of the fair market value of all the issued and outstanding common and voting preferred stock of Industries.

Since the Series A Preferred Stock was not issued to Holdings prior to May 30, 1992, the issuance of the voting preferred stock is reflected on a pro forma basis only.

The following tables present the unaudited pro forma consolidated condensed statement of operations for the thirteen weeks ended May 30, 1992 and fiscal year ended February 29, 1992, reflecting the effects of the issuance of the Series A Preferred Stock by Industries to Holdings, assuming that the Series A Preferred Stock was issued at the beginning of the fiscal year ended February 29, 1992.

The pro forma tables do not purport to represent what Holdings' or Industries' results of operations would actually have been if the Series A Preferred Stock issuance in fact had occurred at the beginning of the period indicated or to project Holdings or Industries' results of operations for any future date or period.

The pro forma adjustments are based upon currently available information including the number and face amount of shares subsequently issued and related dividend terms which were determined (pursuant to an independent appraisal) by the Executive Committee of the Board of Directors.

PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
FOR THE THIRTEEN WEEKS ENDED MAY 30, 1992
(Dollars in thousands except share and per share data)
(Unaudited)

	Historical	Adjustments	Pro Forma
Hallwood Holdings Incorporated and Subsidiaries			
Gross profit (including other income)	$ 1,679	$	$ 1,679
Operating, selling and administrative costs	1,331		1,331
Interest (income)	(8)		(8)
Minority interest in net income of subsidiary	24	(24)(b)	–
Income from continuing operations before income taxes	332	24	356
Income taxes	146	18 (c)	164
Income from continuing operations	$ 186	$ 6	$ 192
Income per share from continuing operations	$ 0.06		$ 0.07
Weighted average number of common shares outstanding	2,785,270		2,785,270
Hallwood Industries Incorporated and Subsidiaries			
Gross profit (including other income)	$ 1,680	$	$ 1,680
Operating, selling and administrative costs	1,280		1,280
Interest (income)	(8)		(8)
Income from continuing operations before income taxes	408		408
Income taxes	164		164
Income from continuing operations	244		244
Less preferred stock dividends	–	(244)(d)	(244)
Income from continuing operations available to common stockholders	$ 244	$ (244)	$ –
Income per common share from continuing operations	$ 0.08		$ –
Weighted average number of common shares outstanding	3,126,722		3,126,722

PRO FORMA CONSOLIDATED CONDENSED STATEMENT OF OPERATIONS
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 1992

(Dollars in thousands except share and per share data)
(Unaudited)

	Historical	Adjustments	Pro Forma
Hallwood Holdings Incorporated and Subsidiaries			
Gross profit (including other income)	$ 5,683	$	$ 5,683
Operating, selling and administrative costs	5,435	(350)(a)	5,085
Provision for doubtful accounts	150		150
Interest (income)	(112)		(112)
Minority interest in net income of subsidiary	11	(11)(b)	–
Income from continuing operations before income taxes	199	361	560
Income taxes	100	119 (c)	219
Income from continuing operations	$ 99	$ 242	$ 341
Income per share from continuing operations	$ 0.03		$ 0.12
Weighted average number of common shares outstanding	2,812,419		2,812,419
Hallwood Industries Incorporated and Subsidiaries			
Gross profit (including other income)	$ 5,683	$	$ 5,683
Operating, selling and administrative costs	5,294	(350)(a)	4,944
Provision for doubtful accounts	150		150
Interest (income)	(112)		(112)
Income from continuing operations before income taxes	351	350	701
Income taxes	148	119	267
Income from continuing operations	203	231	434
Less preferred stock dividends	–	(434)(d)	(434)
Income from continuing operations available to common stockholders	$ 203	$ (203)	$ –
Income per common share from continuing operations	$ 0.07		$ –
Weighted average number of common shares outstanding	3,025,276		3,025,276

(a) Represents costs incurred in connection with the plan of Merger. Approximately $350,000 has been reflected in the statement of operations for the year ended February 29, 1992 and has been eliminated from the pro forma consolidated condensed statement of operations for the period since these costs are a non-recurring expense.

(b) Represents adjustment to reverse the recorded minority interest in Industries since 100% of Industries earnings (up to the amount of the preferred stock dividend) is passed through to Holdings.

(c) Represents the income tax effect of the pro forma adjustment made to certain costs.

(d) Represents preferred stock dividends to be issued to Holdings on an annual, cumulative basis. Such dividends have been calculated assuming the issuance of $12,002,000 of Series A Preferred Stock with a dividend rate of 10%, limited to the extent of Industries' net income for the fiscal year.

3. RAC Bankruptcy

As reported in Holdings' Annual Report on Form 10-K for the fiscal year ended February 29, 1992, the Retail Acquisition Corporation Plan of Reorganization ("RAC Plan") was confirmed by the bankruptcy court on May 29, 1992.

The RAC Plan provides for Industries to be relieved of any further obligations relating to Industries' former retail division, which was sold to RAC in September 1990, except for payment on notes issued by Industries ("Industries Notes") to certain contingent creditors of Industries.

The Industries' Notes, which are non-interest bearing, are payable in six equal annual installments beginning one year after the effective date of the RAC Plan. The Industries' Notes contain a prepayment provision based on performance criteria whereby if defined cash flow exceeds $900,000, $1,000,000 and $1,100,000 in fiscal 1995, 1996 and 1997, respectively, holders of Industries' Notes may tender a portion of the notes in the amount of the excess defined cash flow, but not to exceed approximately $400,000 per annum. For financial accounting purposes, any such prepayments have not been projected. The Industries' Notes have been discounted using an imputed interest rate of 7.5% and are included in the net obligation of the discontinued business segment, together with legal fees related to the RAC matter and certain funds held in escrow for payment of professional fee administrative expenses related to the bankruptcy proceeding from which Industries' predecessor emerged in 1989.

4. Contingencies

Industries was named as a defendant in several lawsuits arising from the Heck's and RAC bankruptcies. All such actions have been settled under the terms of the Heck's and RAC Plans. Industries has been notified of a potential sales tax obligation related to the operations of Industries' predecessor and RAC. However, in the opinion of management, any resulted liability is not expected to have a material effect on Industries' financial condition. Management is unaware of any other significant contingencies.

5. Lines of Credit

Industries has a one-year line of credit which expires on July 21, 1992 in the amount of $1 million secured by a mortgage on Industries's real estate, and by a guarantee from The Hallwood Group Incorporated. The line carries an interest rate of 1 7/8% over LIBOR. Industries has entered into negotiations for a replacement line of credit.

6. Deferred Financing Costs

Deferred financing costs of approximately $486,000 are included in other assets and are related to a proposed financing transaction expected to be completed in fiscal 1993. These costs are to be amortized over the expected term of the proposed financing transaction.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is management's analysis of the significant factors that have influenced Holdings' financial position and results of operations during the periods included in the accompanying financial statements.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Management believes that the corporate structure resulting from the merger, whereby Hallwood Industries Incorporated ("Industries") became a subsidiary of Hallwood Holdings Incorporated ("Holdings") will facilitate capital formation by Holdings because it will be insulated from the liabilities of Industries as well as the stigma of bankruptcy proceedings from which Industries' predecessor emerged in 1989. Moreover, the corporate structure will permit Holdings and Industries to file consolidated tax returns so that Holdings may utilize the tax benefits (including approximately $150 million of net operating loss carryforwards) attributable to Industries. Industries is a special, limited purpose subsidiary which will concentrate on its historical line of business, while future growth and expansion opportunities will be pursued by one or more subsidiaries of Holdings yet to be formed. Through Holdings' continuing ownership of Industries, primarily in the form of preferred stock, Holdings will retain the value of Industries, and will receive substantially all of the benefit of operations through dividends on the preferred stock. It is also believed that Holdings' ownership of Industries in this form will facilitate the preservation and utilization of the tax benefits.

Industries' financial condition has been unsettled for the past several years as a result of both the financial difficulties of Industries' predecessor company, Heck's Inc., which culminated in Heck's 1989 Chapter 11 reorganization, and the subsequent sale of its retail division (the "Retail Division") to a purchaser, Retail Acquisition Corp. ("RAC"), that defaulted on its purchase obligations thus requiring Industries to contribute to the settlement of the former Retail Division's debts. With the confirmation of RAC's plan of reorganization, however, management believes that Industries' financial condition has been stabilized and may be expected to improve in the future.

RAC Bankruptcy

The RAC Plan of Reorganization ("the RAC Plan") was confirmed by the bankruptcy court on May 29, 1992. The RAC Plan provides for Industries to be relieved of past and future claims relating to Industries' former Retail Division, except for payment obligations on the notes issued by Industries pursuant to the RAC Plan. Industries has been notified of a potential sales tax obligation related to the operations of Industries' predecessor and RAC. However, in the opinion of management, any resulted liability is not expected to have a material effect on Industries' financial condition.

The Industries' Notes are non-interest bearing and are payable in six equal annual installments beginning one year after the effective date of the RAC Plan. The Industries' Notes contain a prepayment provision based on performance criteria such that if defined cash flow exceeds $900,000, $1,000,000 and $1,100,000 in each of fiscal 1995, 1996 and 1997, respectively, holders of the Industries' Notes may tender a portion thereof in the amount of the excess defined cash flow, but not to exceed approximately $400,000 per annum.

Lines of Credit

In July 1991 Industries obtained a one-year line of credit which expires on July 21, 1992, in the amount of $1 million, secured by a mortgage on the Steel City building and by a guarantee from The Hallwood Group Incorporated. The line carries an interest rate of 1.875% over LIBOR. In June 1992, $250,000 was drawn against this line. Industries has entered into negotiations for a replacement line of credit.

Industries' working capital needs following the sale of the Retail Division have been substantially less than they were prior thereto. However, following RAC's bankruptcy filing in March 1991 and the resulting threat that creditors of the former Retail Division would seek to collect from Industries on their claims, credit extended by vendors to Steel City has in some cases been restricted. Management is optimistic that the confirmation of the RAC Plan in May 1992 will facilitate a return to normal vendor credit and will enable Industries to renew its existing credit line upon its expiration in July 1992, or obtain a replacement line.

Tax Loss Carryforwards

At December 31, 1991, Industries had net operating loss carryforwards (adjusted for debt forgiveness arising upon the consummation of the Heck's 1989 Plan of Reorganization) (the "Tax Benefits") of approximately $150 million, which expire in the years 2001 through 2005. The issuance of common stock to pre-petition creditors under the Heck's Plan of Reorganization resulted in a change of control, as defined in the applicable IRS regulations, exceeding 50%. A further change in control exceeding 50% may lead to the loss of the majority of the net operating loss carryforwards. In order to reduce the likelihood of such a further change of control occurring, Holdings' and Industries' Certificates of Incorporation include restrictions on the registration of transfers of stock resulting in, or increasing, individual holdings exceeding 4.5% of each Company's common stock.

Since the regulations governing the foregoing tax matters are highly complex, and Holdings' and Industries' attempts to reduce the likelihood of a further change of control occurring may not be successful, management is unable to determine the likelihood of the continued availability of the Tax Benefits, but intends to take all appropriate steps to help ensure that they remain available. Should the Tax Benefits become unavailable to Holdings or Industries, future income of Industries and any consolidated affiliate would not be shielded from taxation thus reducing funds available for corporate purposes.

The operations of Steel City, while historically profitable, do not at present enable Industries to take full advantage of its net operating loss carryforwards. Management has been exploring growth and acquisition opportunities, both in the distribution industry and in other fields, in order to increase its profit base. However, there can be no assurance that such opportunities will arise or that future acquisitions, if any, will be profitable.

RESULTS OF OPERATIONS

Continuing operations: Wholesale Division

Continuing operations include the results of Steel City Products ("Steel City"), a distributor of automotive parts and accessories based in Pittsburgh, Pennsylvania, which is currently operated by Harris & Frank, Inc., a wholly owned subsidiary of Industries.

Thirteen weeks ended May 30, 1992 compared with thirteen weeks ended June 1, 1991

Consolidated revenues increased by $41,000 in the first quarter as compared with the first quarter last year. Although sales have remained essentially level with last year, the customer base has fluctuated significantly. Sales to new customers, along with increased sales in new markets exceeded $1.2 million in the current year first quarter. Other general increases have been achieved as a result of improved customer confidence in the current retail climate. However, these sales gains were largely offset by decreases in shipments to other customers, including Steel City's largest customer which has closed a number of stores, along with one other major customer whose account was lost completely. These decreases totalled approximately $1.1 million.

Gross margin and the gross margin percentage for the first quarter of the current year was $1.7 million (18.4%) compared with $1.8 million (20.1%) in the prior year, a decrease of $140,000 or 1.7% percentage points. The margin was affected by several factors, including the change in customer mix described above along with increased competitive pressures resulting from closing down sales by two competitors. Business with certain new customers has been at slightly reduced margins, although there are lower operating and selling costs associated with this business.

Operating, selling and administrative expenses were $1.3 million compared with $1.5 million last year. Expenses for Steel City have remained essentially constant with last year, while corporate expenses have decreased by approximately $210,000 for the quarter compared with first quarter last year. This decrease was principally attributable to a $170,000 non-recurring expense last year related to the formation of Holdings, combined with reduced salaries and other expenses.

Net interest income decreased approximately $16,000 when compared with the prior year principally due to lower rates of interest being earned on lower average invested funds.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

There are no lawsuits pending against Holdings.

On March 20, 1991, Industries, together with two other creditors of RAC, filed an involuntary petition in the United States Bankruptcy Court for the Southern District of West Virginia entitled In Re: Retail Acquisition Corp. ("RAC") seeking to place RAC in Chapter 7 proceedings. On April 9, 1991 RAC consented to the entry of an order for relief in response to the involuntary bankruptcy petition and moved to convert the case to a case under Chapter 11 of the U.S. Bankruptcy Code. Thereafter, several creditors of RAC brought actions against Industries seeking payment. However, on January 10, 1992, the bankruptcy court extended the bankruptcy stay to Industries' contingent creditors thus preventing them from seeking recovery of their claims, pending voting on the RAC Plan of Reorganization ("RAC Plan").

The RAC Plan was confirmed by the bankruptcy court on May 29, 1992 following an overwhelming vote by creditors.

In September 1991, State Street Bank and Trust Company and James A. Quale commenced legal action against Industries and HPI, Inc. as trustees under a July 1, 1978 mortgage and deed of trust for holders of Heck's Properties, Inc.'s, (now known as HPI, Inc.) 8.625% Secured Notes.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HALLWOOD HOLDINGS INCORPORATED

Date: July 13, 1992

By: _____
Maarten D. Hemsley
President, Chief Executive Officer
and Chief Financial Officer